CFRS REALTY HOLDING CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CFRS Realty Holding Corporation
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of CFRS Realty Holding Corporation (the Corporation), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of activities, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2017, the Corporation adopted a new accounting guidance, Accounting Standards Update No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Our opinion is not modified with respect to this matter.

Other Matter

As discussed in Note 2, the rental property has been valued by management at estimated current appraisal values. These current values incorporate independent appraisals by designated Members of the Appraisal Institute. We have reviewed the procedures used in arriving at the estimates of current value of such investments and we believe the procedures to be reasonable. However, because of the inherent limitations of such valuation methodology, the estimated fair values may differ materially from the values that would have been realized had a sale transaction for the investments actually occurred.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 13, 2018

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
Assets:		
Cash	$ 22,192	$ 37,240
Prepaid Insurance	1,441	8,632
Rental Property at Fair Value (Cost of $6,198,209 as of June 30, 2018 and 2017)	6,150,000	6,150,000
Total Assets:	$ 6,173,633	$ 6,195,872
Liabilities:		
Accounts Payable	$ —	$ —
Security Deposits and Refunds Due	18,226	18,226
Total Liabilities	18,226	18,226
Unrestricted Net Position	$ 6,155,407	$ 6,177,646

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
Revenues:		
Rental Income	$ 535,666	$ 447,942
Other Income	239,601	188,017
Total Revenues	775,267	635,959
Expenses:		
Professional Services	39,529	40,404
Operating	251,977	205,502
Total Expenses	291,506	245,906
Increase/(Decrease) in Net Position	483,761	390,053
Unrealized Appreciation/(Depreciation) on Rental Property	—	—
Net Increase/(Decrease) in Net Position	$ 483,761	$ 390,053

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
Net Position, Beginning of Year	$ 6,177,646	$ 6,256,093
Increase/(Decrease) in Net Position	483,761	390,053
Unrealized Appreciation/(Depreciation) on Rental Property	—	—
Net Increase/(Decrease) in Net Position	$ 483,761	$ 390,053
Distribution to Shareholders	(506,000)	(468,500)
Net Position, End of Year	$ 6,155,407	$ 6,177,646

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
Cash Flows from Operating Activities		
Increase/(Decrease) in Net Position	$ 483,761	$ 390,053
Adjustments to Reconcile Increase/(Decrease) in Net Position to Net Cash Provided by Operating Activities		
Changes in Assets and Liabilities		
(Increase)/Decrease in Prepaid Insurance	7,191	(209)
Increase/(Decrease) in Security Deposits and Refunds Due	—	—
Net Cash Provided by Operating Activities	$ 490,952	$ 389,844
Cash Flows from Financing Activities		
Distribution to Shareholders	(506,000)	(468,500)
Net Increase/(Decrease) in Cash	(15,048)	(78,656)
Cash, Beginning of Year	37,240	115,896
Cash, End of Year	$ 22,192	$ 37,240
Supplemental Disclosures of Cash Flow Information		
Non-Cash Investing Activities:		
Net Unrealized Appreciation(Depreciation) on Real Property	$ —	—

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1 | ORGANIZATION

Ownership

CFRS Realty Holding Corporation, a nonprofit corporation, (the Corporation) was incorporated in the state of California on April 3, 2003 for the purpose of acquiring the rental property. The Corporation has authorized 1,000 shares of common stock with no par value and has issued 204 shares for a total value of $6,120,000. The shareholders of the Corporation are the City of Fresno Retirement Systems, which are qualified pension plans. On May 28, 2003, the Corporation acquired the 2828 Fresno Street Office Building, which is a 24,300 square foot office building, located in Fresno, California.

Management

Certain directors and officers of the Corporation are also Trustees of the City of Fresno Retirement Systems. The City of Fresno Retirement Systems also provide administrative services and support to the Corporation. Refer to Note 6 for a full description of related party transactions.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Implementation of New Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value practical expedient in Accounting Standards Codification (ASC) Topic 820. ASU No. 2015-07 requires retrospective application and is effective for fiscal years beginning after December 15, 2016 (December 15, 2015 for public entities) with early adoption permitted. As of June 30, 2018 and 2017, the Corporation held investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Principles of Reporting

The accompanying financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting. Accordingly, revenues are recognized as earned and expenses are recognized as incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

For the purpose of the cash flow statements, cash consists of deposits held with banks.

Valuation of Rental Property

The Corporation's policy is to perform independent appraisals of the property every three years. The appraisals include a complete property and market inspection and analysis by designated Members of the Appraisal Institute (MAI). Calculations used in the independent appraisals are generally based on a discounted cash flow analysis.

The rental property's stated fair value can be defined as the most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale with the buyer and seller each acting prudently, knowledgeably, and assuming that neither is in undue duress.

Estimated fair value is based on acquisition cost, plus capital improvements, until first appraised.

Because of the inherent uncertainty of real estate valuations related to assumptions regarding highest and best use, capitalization rates, discount rates, leasing, and other factors, the estimated fair values reflected in the financial statements may differ from values that would be determined by negotiation between independent parties in sales transactions, and the difference could be material.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Corporation does not provide for depreciation or amortization on its rental property. Any difference between cost and fair value of rental property held as of the reporting year-end period is reported as a change in unrealized appreciation/(depreciation) on rental property.

Any difference between cost and fair value of rental property disposed of during a year or reporting period is reported as a realized gain/(loss) on rental property.

Expenditures for major renewals and betterments are capitalized and expenditures for repairs and maintenance are expensed when incurred.

Security Deposits and Rental Income

The Corporation recognizes rental income based on the contractual rents due under the terms of the related leases. Security deposits consist of tenant payments made on the first month's rent as stipulated in the agreements.

Income Taxes

The Corporation qualifies for exemption from federal income tax under Section 501(c)(25) of the Internal Revenue Code. Accordingly, there is no provision for income taxes made in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain tax position that, more likely than not, would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of June 30, 2018 and 2017, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2013.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Operating Expenses

Operating expenses consist of administrative expenses, property management fees, repairs and maintenance, gardening, janitorial and other services in connection with managing the property. Property management fees are described below.

Property Management Fees

The Corporation has entered into a management agreement with an independent management company to operate the rental property. This agreement provides for a monthly management fee equal to $800 per month.

Common Area Maintenance (CAM) Expense

In addition to base rent, tenants are responsible for additional payments related to certain operating expenses including utilities, janitorial services and Common Area Maintenance (CAM) expenses. CAM expenses are budgeted yearly and collected monthly with the base rent. The expenses are calculated based upon a prorated share of each tenant's office space.

Distribution to Shareholders

The Corporation is a qualified tax-exempt realty holding corporation under 501(c)(25), and as such is required to remit the entire amount of income received from real property held by the Corporation, less expenses, to its shareholders. By resolution, the Board of Director's appointed Distribution Committee was authorized to determine and set criteria for the periodic distributions of income to the Corporation's shareholders and to authorize such periodic distributions of income in accordance with the criteria it established.

The Distribution Committee is authorized to make a distribution if the amount of retained earnings of the Corporation immediately prior to the distribution equals or exceeds the amount of the proposed distribution. Distributions shall be net of an operating cash reserve equal to a minimum of five percent of the Corporation's annual budgeted operating expenses.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Determination of the amount available is made based on the most recent internally prepared unaudited financial statements. Distributions of $506,000 and $468,500 were made during the fiscal years ended June 30, 2018 and 2017, respectively.

Management's Review

Subsequent events were evaluated through November 13, 2018, which is the date the financial statements were available to be issued. There were no subsequent events identified by management which require disclosure in the financial statements.

Operating Leases

Since June 30, 2007, the rental property has been 100% leased and 100% occupied.

The following table depicts the approximate percentage of office space each tenant occupies.

Tenant	Approximate Percentage of Total Rental Space
City of Fresno Retirement Systems	37.00%
Fresno Community Hospital and Medical Center	11.60%
Fresno Dental Surgery Center	51.40%

3 | CASH

Cash consisted of the following as of June 30, 2018 and 2017:

	June 30, 2018	June 30, 2017
Cash In Bank	$22,192	$37,240
Total Cash	$22,192	$37,240

4 | CONCENTRATION OF CREDIT RISK

The Corporation maintains all cash in a bank account with one institution. The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, permanently raised the standard maximum deposit insurance amount to $250,000, the FDIC insurance limit per depositor, per depository institution or insured bank in an effort to increase consumer confidence in the banking system. At times balances could exceed the insured limit. The Corporation has not experienced any losses in such accounts nor has it had any cash balances in excess of the applicable insured limit, therefore, does not feel that it is exposed to any significant risk in this area.

At June 30, 2018 and 2017, the Corporation's cash balances in excess of the applicable insured limit of $250,000 for 2018 and 2017 totaled $0 and $0, respectively.

5 | SHARES ISSUED AND OUTSTANDING

		Number of Shares	
	Amount	**Authorized**	**Issued**
City of Fresno Employees Retirement System	$ 3,060,000	500	102
City of Fresno Fire and Police Retirement System	3,060,000	500	102
Total	$ 6,120,000	1,000	204

6 | RELATED PARTY TRANSACTIONS

The following represent transactions between the Corporation and the related parties:

On September 19, 2005, the Corporation entered into a lease agreement with the City of Fresno Employees and Fire and Police Retirement Boards (the Retirement Boards) to lease part of the building for Retirement office space. The Retirement Boards and their administrative staff occupy approximately 7,900 square feet of the second floor of the renovated building. The term of the lease is ten years with an option for two additional five-year extensions. The first five (5) year extension was exercised effective September 1, 2015. The base rent, originally $1.35 per square feet per month, triple net, is as of June 30, 2018, $1.68 per square feet per month, triple net.

For the fiscal years ended June 30, 2018 and 2017, the Corporation received $209,563 and $128,482, respectively, as rental income from these related parties. In addition to the base rent, the tenant is responsible for a prorated share of the Common Area Maintenance (CAM) Expenses and paid $86,310 and $68,808 for the years ended June 30, 2018 and 2017, respectively.

7 | FAIR VALUE MEARSUREMENTS

The Corporation follows Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures,* which provides a framework for measuring fair value, and further defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Corporation determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820 which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

7 | FAIR VALUE MEASUREMENTS CONTINUED

Level 1 Quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly through corroboration with observable market data. Level 2 inputs include (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs used to measure fair value to the extent that observable market based inputs are not available and that are supported by little or no market activity for the asset or liability. These unobservable inputs reflect the Corporation's own estimates about the assumptions that market participants would use in pricing the asset or liability.

The Corporation did not hold assets requiring the use of Level 1, 2 or 3 inputs for the periods presented.

The following table sets forth by level, within the fair value hierarchy, the Company's investments as of June 30, 2018 and 2017:

Investments Measured at Net Asset Value (NAV)		
	June 30, 2018	**June 30, 2017**
Rental Property	$6,150,000	$6,150,000
Total Investments Measured at NAV	$6,150,000	$6,150,000

7 | FAIR VALUE MEASUREMENTS CONTINUED

ASC Topic 820 permits NAV per share as a practical expedient to estimate fair value of an investment as long as the investment does not already have a readily determinable fair value. The Corporation's Rental Property meets the practical expedient requirements, and as a result of implementing ASU No. 2015-07, which removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value practical expedient in ASC Topic 820, the Corporation's Rental Property is measured at the fair value using the NAV per share (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy. A description is as follows:

Rental Property

The Rental property consists of the 2828 Fresno Street Office Building, which is a 24,300 square foot office building, located in Fresno, California. The NAV valuation is derived from an independent appraisal of the property performed every three years.

There were no unfunded commitments as of June 30, 2018 and 2017.